



A STUDY ON GROWTH AND CHALLENGES OF MSME IN INDIA

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ABSTRACT

The Micro, Small and medium enterprises of India is an important driving factor for the growth of Indian Economy and one of the driving forces for generating employment especially with low capital and technology. These MSMEs not only provide the employment opportunities but also helps in the process of industrialization in rural areas simultaneously reducing the unequal income distribution among the residents. The MSMEs contribute significantly in the development of Indian economy through export production, domestic production, low investment requirements, operational flexibility, technology oriented enterprises etc. In India, after agriculture, small business is the second largest employer of human resources. MSMEs constitute more than 80 percent of the total number of industrial enterprises and support industrial development, 40 per cent of industrial output, 80 per cent of employment in the industrial sector, 45 per cent of value added by the manufacturing sector and 40 percent of total exports. In this paper an attempt is made to know the growth and contribution made by Micro, Small and Medium Enterprises in India and to understand the role of MSMEs in providing employment opportunities in India. The various problems faced by these MSMEs in executing their operations have also been discussed in this paper.

KEYWORDS: MSME, Indian Economy, Growth, Employment Generation

INTRODUCTION

It is globally acknowledged that MSMEs are the backbone of the economy and especially underdeveloped countries. MSME sector has emerged as a very important sector of the Indian economy, committing markedly to employment creation, innovation, exports, and inclusive growth of the economy. A huge fragment of India's firms is small, informal, and work in the unorganized sector. Based on annual reports on MSMEs designate that the sector shares around 30% of India's GDP and locate on conventional estimate employ all over 50% of industrial workers. MSMEs are also playing a pivotal role as it contributes about 40% of the overall export of the country. Almost over 97% of micro-firms are part of MSMEs and 94% of firms are registered with the government. The sector is consistently growing over urban and rural areas and is equitably constitute in the trade, manufacturing, and service sector. The current coronavirus crisis (COVID-19) impacting MSMEs, which are the spinal structure of India's all-round development story, has felt a remarkable impact and faced critical disturbance. As MSMEs are an important part of the domestic and foreign value chain, the predicament of the sector is deeply affected and is facing various challenges in the economy.

The Micro, Small and Medium Enterprises Development (MSMED) Act was notified in 2006 which was especially meant to address policy issues affecting MSMEs as well as the coverage and investment ceiling of the sector. The Act seeks to facilitate and promote the development of these sectors as it also enhances their competitiveness. It was important from the point of view that it provides the first-ever legal framework for recognition of the concept of "enterprise" which comprises both manufacturing and service entities. It defines in detail medium enterprises for the first time and it also seeks to integrate the three tiers of these enterprises, namely, micro, small and medium enterprises.

This Act is also important as it provides for a statutory consultative mechanism of MSME at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises and with a wide range of advisory functions. Establishment of specific funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/programmers for this purpose, progressive credit policies and practices, preference in Government procurements to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a scheme for easing the closure of business by these enterprises, are some of the other features of the Act. These features makes the Act very promoting and helps in the development of MSME sector.

Micro, small and medium enterprises as per MSMED Act, 2006 are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipment for enterprises providing or rendering services. This specifies certainly discuss the products specifically define to be produced through these sectors and also highlights the investment done in various sections of these sectors.

Recognizing the contribution and potential of the sector, the definitions and coverage of the Small Scale Industry (SSI) sector were broadened significantly

under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 which recognized the concept of "enterprise" to include both manufacturing and services sector besides, defining the medium enterprises. This definition increased the importance and weightage of the Small Scale Industries and its importance in generating employment as it is one of the labour intensive sectors that sounds promising for the abundant population burden in the nation.

REVIEW OF LITERATURE

Ghatak, Shambhu (2010) in his paper titled "Micro, small and medium enterprises (MSMEs) in India: an appraisal highlighted that status of Indian MSMEs is better than its counterpart in Bangladesh & Pakistan. About 36% of Pakistani SMEs have bank accounts where as about 46% Bangladeshi's SMEs have Bank accounts. In comparison to them about 95% of Indian SMEs have their bank accounts. He further stated that Indian Govt. should accelerate its initiatives to provide further support to these Small scale industries.

Srinivas, K. T. (2013) in his paper entitled Role of micro, small and medium enterprises in inclusive growth concluded that the MSMEs has been termed as the engine for the growth of the Country. In the last few years, there has been tremendous change in the national & State level for consolidating this sector. Poor infrastructure & lack of marketing linkages are the key reasons for the poor growth of the MSMEs in India. The support provided by the state as well as Central Govt. is not adequate for the upliftment of the MSMEs in India. Therefore the entrepreneurs in India & Govt. should take some initiatives for further-development of these MSMEs in India.

Das, P.(2017) focuses on the huge growth potential and opportunities a variable in India for the development of the MSME sector, to identify important issues, challenges, and suggestions. He used secondary data. He discovered that the sector has exhibited enough resilience to assist itself in the strength of our traditional skills and expertise and by infusion of capital, new technologies, and innovative marketing strategies.

Lama, P. (2014) analyzes the role and performance of MSMEs in the Indian economy and government policies as well as the various challenges and opportunities associated with MSMEs. She used a descriptive approach and secondary data. She found that the MSMEs need to improve their productivity and quality, reduce costs and innovate. To keep MSMEs on the right path and direction, it is necessary to emphasize the formulation of friendly policies, a conducive operating environment, proper finance, and modern technology for MSME.

OBJECTIVE OF THE STUDY

1. To study the current status and growth of MSMEs in India.
2. To study the impact of MSMEs on employment generation in India.
3. To know the problems faced by MSMEs in India

DATA AND METHOD

The study uses a descriptive-analytical approach. It is based on secondary data and information is taken from various government reports, such as reports of the

Ministry of MSME, handbook of statistics of Indian economy, issues of RBI, various researchpapers, journals, and websites of both public and private sector banks.

RESULT AND DISCUSSION

Various definitions of MSMEs have been given internationally. Different countries uses different criteria to define MSME sector, some used investment ceiling standards and some of them used the number of people employed. In India, MSMEs are mostly categorized based on investment in plant and equipment or machinery. The MSMED Act, 2006 has delivered the legal system for classifying the approach of 'enterprise' which combines institutions both service and manufacturing sectors, and has assorted the enterprises into three divisions viz., Micro, Small and Medium.

Categories	Manufacturing Enterprises (Investment in Plant and Machinery)	Service (Investment in Equipment)
Micro	Up to 25 lakh rupees	Up to 10 lakh rupees
Small	Above 25 lakh rupees to 5 crore rupees	Above 10 lakh rupees to 2 crore rupees
Medium	Above 5 crore rupees to 10 crore rupees	Above 2 crore rupees to 5 crore rupees

Source: MSMED Act, 2006

Table-1: Classification of MSME

Manufacturing Enterprises: The enterprises engrossed in the production of goods regarding any industry in the 1st Schedule to the Industries (Development and Regulation) Act, 1951. **Service Enterprises:** The enterprises engrossed in delivering services.

Manufacturing and Service Sectors	Investment (In INR)	Turnover (In INR)
Micro Enterprises	Less than 1 crore	Under 5crore
Small Enterprises	Less than 10crore	Under 50crore
Medium Enterprises	Less than 20crore	Under 100crore

Source: RBI Gazette notification

Table- 2: New Definition of MSME

During Unlock 1.0 the Union Cabinet sanctioned an economic package for MSMEs along with an expanded definition. The new definition combines manufacturing and service sector MSMEs, allowing them to enjoy the same benefits. The new definition expanded the criteria of investment and turnover of MSMEs.

Present Growth and Performance of MSMEs in India

MSMEs play a crucial role in the socio-economic development of the Indian economy. The sector has both registered and Informal sectors. The present paper measures the performance of the MSMEs based on major performance variables like total working MSMEs, employment generation, the market value of fixed assets, and share of MSME sector in total GDP from 2006-07 to 2015-16. In Table-3 the CAGR is highest for the market value of fixed assets, followed by the number of working units and employment. The statistics reveal that there is a high degree of relationship between the number of the working unit, employment, and market value of fixed assets. The share of MSMEs in the total GDP percentage is decreasing.

Year	Total Working MSMEs (Lakh No)	Employment (in Lakh person)	Market Value of Fixed Assets (Rs in crore)	Share of MSME Sector in Total GDP (%)^
2006-07	361.76	805.23	868543.79	35.13
2007-08	377.36	842.00	920459.84	35.41
2008-09	393.7	880.84	977114.72	36.12
2009-10	410.8	921.79	103854.603	36.05
2010-11	428.73	965.15	110593.409	36.69
2011-12	447.64	1011.69	118275.764	37.97

2012-13	467.54	1061.4	126876.367	37.54
2013-14	488.46	1114.29	136370.054	30.64
2014-15	510.57	1171.32	147191.294	30.74
2015-16	633.88	1109.89	154349.106	28.77
CAGR	5.77%	3.26%	5.92%	-1.98%

Source: MSME Annual Report 2015 -16,2016 -17 and ^ Central statistical Office, MOSPI

Table- 3: Growth of MSME Sector in India

Challenges of MSMEs in India

- Lack of credit from banks:** The banks are providing on an average 50% total capital employed in fixed assets. The cost of credit is also high. Interest rates on MSME loans are between 8.65% to 16.25%.
- Competition from multinational companies:** In present era of globalization, the MSME'S are facing the great from the international manufacturing companies who are proving quality goods at cheapest price.
- Poor infrastructure:** Though, MSME'S are developing so rapidly but their infrastructure is very poor. With poor infrastructure, their production capacity is very low while production cost is very high.
- Unavailability of raw material and other inputs:** For MSME's required raw material skilled work force and other inputs, which are not available in the market. Due to unavailability of these essentials, it is very difficult to produce the products at affordable prices.
- Lack of advanced technology:** The owners of MSME'S are not aware of advanced technologies of production.
- Lack of distribution of marketing channels:** The MSME'S are not adopting the innovative channels of marketing. The ineffective advertisement and poor marketing channels leads to a very poor selling.
- Lack of training and skill development program:** The owners are not aware of the innovative methods of production. The skill developmental schemes conducted by the government are not sufficient.

CONCLUSION

The MSME sector in India is growing at good pace & even is providing employment opportunities to masses of the people. The contribution of Manufacturing Sector as well as Service Sector of MSMEs in significant to the total GDP of the Country. The Govt. of India has taken number of initiatives & is in the process of gearing up the growth of Micro, Small & Medium Enterprises in the country. The Govt. of India isalso making number of tie-ups & agreements with the NGOs, Governmental agencies as well as with the Universities for making it sure that proper implementation of Governmental policies for setting up of MSMEs is there & entrepreneurs are properly guided for starting their ventures. But still MSMEs are facing many challenges. The problem of unawareness towards technological advancement can removed after running effective training and skill development programs. There should be low cost credit to the MSME'S. The foreign banks are not taking so much interest in sanctioning loan to the MSME sector. The outstanding bank credit is less than 50% of total fixed assets employed in MSME'S while the owners invest their own fund in working capital. The panel of experts must constitute to assess the status and the needs of the MSME'S. The future of MSME sector in India is bright and it will grow the economy.

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